

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Orion</u>	County <u>Oakland</u>
Audit Date <u>December 31, 2004</u>	Opinion Date <u>March 31, 2005</u>	Date Accountant Report Submitted To State: <u>June 24, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature 			

Charter Township of Orion Oakland County, Michigan

**Financial Report
with Supplemental Information
December 31, 2004**

Charter Township of Orion

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Orion's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Orion's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 31, 2005

Charter Township of Orion

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Orion's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2004:

- State-shared revenue, our largest revenue source in the General Fund, was reduced by the State of Michigan by approximately \$174,000 (7.3 percent) this year. To offset this, Orion Township closely monitored its spending in all other areas.
- Total fund balances related to the Township's governmental funds increased by approximately \$799,000 due to continued development within the Township.
- In 2003, the Township restricted a portion of fund balance (\$125,000) to provide for the settlement of the clerical union contract. These anticipated expenditures were accrued in 2004.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of Orion Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside the government.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets (in thousands of dollars) of the Township as of December 31, 2004 and 2003:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 23,870	\$ 22,359	\$ 31,437	\$ 29,813	\$ 55,307	\$ 52,172
Noncurrent assets	12,116	12,095	56,307	55,286	68,423	67,381
Total assets	35,986	34,454	87,744	85,099	123,730	119,553
Liabilities						
Current liabilities	7,776	7,079	1,334	1,341	9,110	8,420
Long-term liabilities	251	218	-	-	251	218
Total liabilities	8,027	7,297	1,334	1,341	9,361	8,638
Net Assets						
Invested in capital assets	12,115	12,095	34,047	34,795	46,162	46,890
Restricted	2,976	2,898	21,122	19,122	24,098	22,020
Unrestricted	12,868	12,164	31,241	29,841	44,109	42,005
Total net assets	<u>\$ 27,959</u>	<u>\$ 27,157</u>	<u>\$ 86,410</u>	<u>\$ 83,758</u>	<u>\$ 114,369</u>	<u>\$ 110,915</u>

The Township's combined net assets increased 3.0 percent from a year ago - increasing from \$110.9 million to \$114.4 million. As we look at the governmental activities separately from the business-type activities, we can see that the net assets from governmental activities increased \$803,000 - from \$27.2 million to \$28.0 million (2.9 percent). The net assets for business-type activities increased by \$2.7 million - from \$83.7 million to \$86.4 million (3.1 percent). Governmental unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by \$704,000 - from \$12.2 million to \$12.9 million (5.5 percent). The current level of unrestricted net assets of \$12.9 million for our governmental activities is about 130 percent of governmental activities expenditures. The restricted net assets and those invested in capital assets for government activities increased by \$98,000 - from \$15.0 million to \$15.1 million (0.7 percent). The unrestricted net assets for business-type activities increased by \$1.4 million - from \$29.8 million to \$31.2 million at year end (4.5 percent), while the restricted net assets and those invested in capital assets increased by \$1.3 million - from \$53.9 million to \$55.2 million (2.3 percent). These figures are within the targeted range set by the Township Board during its last budget process.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets (in thousands of dollars) for the years ended December 31, 2004 and 2003:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 1,625	\$ 1,461	\$ 6,221	\$ 6,607	\$ 7,846	\$ 8,068
Operating grants and contributions	142	125	-	-	142	125
Capital grants and contributions	-	266	1,502	2,022	1,502	2,288
General revenue:						
Property taxes	6,172	5,971	-	-	6,172	5,971
State-shared revenue	2,212	2,325	-	-	2,212	2,325
Unrestricted investment earnings	352	314	1,699	1,913	2,051	2,227
Host fees	435	410	-	-	435	410
Transfers and other revenue	(252)	(412)	502	518	250	106
Total revenue	10,686	10,460	9,924	11,060	20,610	21,520
Program Expenses						
General government	2,552	2,259	-	-	2,552	2,259
Public safety	5,415	5,177	-	-	5,415	5,177
Public works	712	289	-	-	712	289
Health and welfare	165	153	-	-	165	153
Community and economic development	160	206	-	-	160	206
Recreation and culture	879	858	-	-	879	858
Water and sewer	-	-	7,272	7,638	7,272	7,638
Total program expenses	9,883	8,942	7,272	7,638	17,155	16,580
Change in Net Assets	\$ 803	\$ 1,518	\$ 2,652	\$ 3,422	\$ 3,455	\$ 4,940

Governmental Activities

The Township's total governmental revenues increased by approximately \$226,000, from \$10.5 million to \$10.7 million (2.1 percent) despite decreases in state-shared revenues. Interest income reversed its downturn, increasing by \$38,000, from \$314,000 to \$352,000 (10.8 percent). Of the Township's total revenue for fiscal year 2004, property taxes comprise the largest segment, as was the case in 2003.

The Township's expenses increased approximately \$941,000, from \$8.9 million to \$9.9 million (9.5 percent). The majority of governmental expense is associated with the public safety function, which includes both fire and police services.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 80 percent of Township residents, which comes from the Detroit water system. We provide sewage treatment to approximately 80 percent of Township residents, through a City of Detroit-owned and operated sewage treatment plant, administered through Oakland County. Water and sewer usage was down in 2004 from 2003 due to the occasional idling of the GM plant located in Orion Township. Interest income also decreased approximately \$214,000, from \$1.9 million to \$1.7 million (10.5 percent), due to the maturity of high income investments that were reinvested at current interest rates, which were significantly lower.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Orion Township Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for 2004 include the General Fund, the Fire Protection Fund, and the Police Protection Fund.

The General Fund pays for most of the Township's governmental services. However, the most significant governmental service is police and fire protection, which incurred expenses of \$4.2 million in 2004, which was an increase of \$127,000 (4.4 percent). These two services are entirely supported by special public safety millages, which are recorded in the respective Public Safety Funds. In addition, there are two capital improvement funds: the General Capital Improvement Fund and the Fire Capital Improvement Fund. The Township Board designated \$3.2 million from the General Capital Improvement Fund in 2004 for the future widening of Baldwin Road. The Fire Capital Improvement Fund received \$600,000 in 2004 from the Fire Protection Fund to be used for the construction of a new fire station in 2005.

General Fund Budgetary Highlights

Over the course of the year, the Township Board made necessary budget adjustments to fund unanticipated expenses during the year. Budget amendments were made arising out of the construction of the Baldwin Road roundabout in the amount of \$98,800. However, due to the departments coming in under budget at year end, there was an overall favorable variance of approximately \$735,000 from budget for General Fund expenditures.

Capital Asset and Debt Administration

At the end of 2004, the Township had \$46.2 million invested in a broad range of capital assets, including buildings, land, police and fire equipment, and water and sewer lines, among others. In addition, the Township has made certain investments in roads and drains within the Township.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The Township has no bonded outstanding debt as of the 2004 year end.

Economic Factors and Next Year's Budget

The Township's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to monitor its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the inflation rate or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow by less than inflation, before considering new property additions.

We anticipate that the water rates will have to increase during 2005. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2005 to discuss the need for such an increase.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (248) 391-0304, extension 104 or via the Township's website at clerksoffice@oriontownship.org.

Charter Township of Orion

Statement of Net Assets December 31, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 9,527,247	\$ 14,546,781	\$ 24,074,028
Investments (Note 3)	7,196,735	12,798,207	19,994,942
Receivables - Net (Note 4)	5,627,449	4,966,891	10,594,340
Internal balances (Note 6)	874,909	(874,909)	-
Prepaid costs and other assets	645,135	-	645,135
Restricted assets (Note 1)	-	21,122,328	21,122,328
Capital and lateral fees receivable	-	1,137,939	1,137,939
Capital assets - Nondepreciable (Note 5)	4,001,775	-	4,001,775
Capital assets - Subject to depreciation - Net (Note 5)	8,113,468	34,047,205	42,160,673
Total assets	35,986,718	87,744,442	123,731,160
Liabilities			
Accounts payable	691,506	885,616	1,577,122
Accrued and other liabilities	254,119	42,609	296,728
Deferred revenue (Note 4)	6,777,661	406,349	7,184,010
Noncurrent liabilities (Note 7):			
Due within one year	53,343	-	53,343
Due in more than one year	250,852	-	250,852
Total liabilities	8,027,481	1,334,574	9,362,055
Net Assets			
Invested in capital assets	12,115,243	34,047,205	46,162,448
Restricted:			
Fire protection	576,130	-	576,130
Liquor law enforcement	52,395	-	52,395
Police protection	1,412,865	-	1,412,865
Safety path	934,907	-	934,907
Capital projects (Note 1)	-	21,122,328	21,122,328
Unrestricted	12,867,697	31,240,335	44,108,032
Total net assets	\$ 27,959,237	\$ 86,409,868	\$ 114,369,105

Charter Township of Orion

	Program Revenues			
	Charges for	Operating	Capital Grants	
Expenses	Services	Grants and Contributions	and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,551,471	\$ 284,443	\$ -	\$ -
Public safety	5,415,224	1,035,356	-	-
Public works	712,242	20,721	90,187	-
Health and welfare	165,087	160	47,145	-
Community and economic development	160,252	86,476	4,553	-
Recreation and culture	878,948	198,072	-	535
Total governmental activities	9,883,224	1,625,228	141,885	535
Business-type activities - Water and sewer	7,272,000	6,220,775	-	1,502,289
Total primary government	<u>\$ 17,155,224</u>	<u>\$ 7,846,003</u>	<u>\$ 141,885</u>	<u>\$ 1,502,824</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Eagle Valley host fee				
Miscellaneous				
Transfers (Note 6)				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2004

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (2,267,028)	\$ -	\$ (2,267,028)
(4,379,868)	-	(4,379,868)
(601,334)	-	(601,334)
(117,782)	-	(117,782)
(69,223)	-	(69,223)
(680,341)	-	(680,341)
(8,115,576)	-	(8,115,576)
-	451,064	451,064
(8,115,576)	451,064	(7,664,512)
6,171,853	-	6,171,853
2,211,513	-	2,211,513
352,396	1,698,499	2,050,895
434,611	-	434,611
248,082	2,559	250,641
(500,000)	500,000	-
8,918,455	2,201,058	11,119,513
802,879	2,652,122	3,455,001
27,156,358	83,757,746	110,914,104
<u>\$ 27,959,237</u>	<u>\$ 86,409,868</u>	<u>\$ 114,369,105</u>

Charter Township of Orion

Governmental Funds Balance Sheet December 31, 2004

	General Fund	Fire Protection Fund	Police Protection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 9,526,986	\$ 261	\$ -	\$ -	\$ 9,527,247
Investments (Note 3)	3,560,620	-	-	3,636,115	7,196,735
Receivables:					
Property taxes	1,244,939	1,131,494	2,098,228	271,459	4,746,120
Interest	62,035	-	-	-	62,035
Other	-	-	269	105,515	105,784
Due from other governmental units	429,183	-	-	-	429,183
Due from other funds (Note 6)	2,094,630	3,932,956	2,856,040	7,350,295	16,233,921
Other assets	554,106	-	-	-	554,106
Prepaid expenses	23,186	15,843	-	52,000	91,029
Total assets	\$ 17,495,685	\$ 5,080,554	\$ 4,954,537	\$ 11,415,384	\$ 38,946,160
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 188,898	\$ 16,054	\$ 358,988	\$ 127,566	\$ 691,506
Other liabilities	196,648	54,902	-	-	251,550
Due to other funds (Note 6)	11,359,547	2,779,744	-	1,219,721	15,359,012
Due to other governmental units	2,569	-	-	-	2,569
Deferred revenue (Note 4)	1,744,720	1,653,724	3,130,289	430,124	6,958,857
Total liabilities	13,492,382	4,504,424	3,489,277	1,777,411	23,263,494
Fund Balances					
Reserved for prepaid expenses	23,186	15,843	-	52,000	91,029
Reserved for liquor law enforcement	-	-	52,395	-	52,395
Designated fund balance (Note 9)	185,383	15,843	1,179,115	4,712,961	6,093,302
Unreserved reported in:					
General Fund	3,794,734	-	-	-	3,794,734
Special Revenue Funds	-	544,444	233,750	57,694	835,888
Capital Project Funds	-	-	-	4,815,318	4,815,318
Total fund balances	4,003,303	576,130	1,465,260	9,637,973	15,682,666
Total liabilities and fund balances	\$ 17,495,685	\$ 5,080,554	\$ 4,954,537	\$ 11,415,384	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					12,115,243
Receivables are expected to be collected over several years and are not available to pay for current year expenditures					67,226
State revenue-sharing receivable is expected to be collected over the next year and is not available to pay for current year expenditures					398,297
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(304,195)
Net assets of governmental activities					\$ 27,959,237

Charter Township of Orion

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2004

	General Fund	Fire Protection Fund	Police Protection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Taxes and penalties	\$ 1,446,317	\$ 1,526,265	\$ 2,824,998	\$ 374,273	\$ 6,171,853
Licenses and permits	851,191	-	14,934	19,240	885,365
Eagle Valley fees	-	-	-	434,611	434,611
Federal grants	49,975	-	-	-	49,975
State sources	2,206,306	1,631	3,252	70,947	2,282,136
Interest	145,550	42,066	73,286	91,494	352,396
Special assessments	-	-	-	20,896	20,896
Other	503,379	90,728	269,569	132,928	996,604
Total revenue	5,202,718	1,660,690	3,186,039	1,144,389	11,193,836
Expenditures					
General government	2,555,244	-	-	-	2,555,244
Public safety	788,337	1,138,695	3,112,696	33,559	5,073,287
Public works	182,670	-	-	-	182,670
Health and welfare	252,531	-	-	-	252,531
Recreation and cultural	682,295	-	-	-	682,295
Capital outlay	35,299	3,377	3,504	944,352	986,532
Other	-	-	-	162,711	162,711
Total expenditures	4,496,376	1,142,072	3,116,200	1,140,622	9,895,270
Excess of Revenue Over Expenditures	706,342	518,618	69,839	3,767	1,298,566
Other Financing Sources (Uses)					
Transfer in	525,725	-	-	1,100,000	1,625,725
Transfer out	(1,000,000)	(600,000)	-	(525,725)	(2,125,725)
Total other financing sources (uses)	(474,275)	(600,000)	-	574,275	(500,000)
Net Change in Fund Balances	232,067	(81,382)	69,839	578,042	798,566
Fund Balances - January 1, 2004	3,771,236	657,512	1,395,421	9,059,931	14,884,100
Fund Balances - December 31, 2004	\$ 4,003,303	\$ 576,130	\$ 1,465,260	\$ 9,637,973	\$ 15,682,666

Charter Township of Orion

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	798,566
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		20,735
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Certain revenues are recorded in the statement of activities when the revenue is earned; they are not reported in the funds until collected or collectible within 60 days of year end		(7,733)
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Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds		9,553
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Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities		(18,242)
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Change in Net Assets of Governmental Activities	\$	<u>802,879</u>
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Charter Township of Orion

Proprietary Funds Statement of Net Assets December 31, 2004

	Enterprise - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 14,546,781
Investments	12,798,207
Receivables - Net:	
Water and sewer billings	1,365,018
Interest	2,998,711
Special assessments	603,162
Total current assets	32,311,879
Noncurrent assets:	
Restricted assets (Note 1)	21,122,328
Capital and lateral fees receivable	1,137,939
Property and equipment - Net (Note 5)	34,047,205
Total noncurrent assets	56,307,472
Total assets	88,619,351
Liabilities - Current liabilities	
Accounts payable	885,616
Due to other funds	874,909
Other liabilities	42,609
Deferred revenue	406,349
Total liabilities	2,209,483
Net Assets	
Investment in capital assets - Net of related debt	34,047,205
Restricted (Note 1)	21,122,328
Unrestricted	31,240,335
Total net assets	\$ 86,409,868

Charter Township of Orion

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2004

	Enterprise - Water and Sewer Fund
Operating Revenue	
Water charges	\$ 3,124,968
Sewer charges	2,755,986
Water connection charges	187,839
Charges for services	37,724
Other operating revenue	<u>116,817</u>
Total operating revenue	6,223,334
Operating Expenses	
Cost of water and sewage disposal	4,387,956
Depreciation	1,570,776
Salaries and fringe benefits	834,637
Utilities	32,717
Insurance	45,011
Professional services	72,825
Tools and supplies	150,250
Repairs and maintenance	117,988
Other operating expenses	<u>59,840</u>
Total operating expenses	<u>7,272,000</u>
Operating Loss	(1,048,666)
Nonoperating Income - Interest income	<u>1,698,499</u>
Income - Before capital contributions and transfers	649,833
Capital Contributions	
Capital and lateral charges	897,289
Developer contributions	<u>605,000</u>
Total capital contributions	1,502,289
Transfers	<u>500,000</u>
Change in Net Assets	2,652,122
Net Assets - January 1, 2004	<u>83,757,746</u>
Net Assets - December 31, 2004	<u><u>\$ 86,409,868</u></u>

Charter Township of Orion

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2004

	Enterprise - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 6,099,595
Payments to suppliers	(4,812,907)
Payments to employees	(826,049)
Internal activity - Net payments from other funds	172,894
Other receipts	<u>230,580</u>
Net cash provided by operating activities	864,113
Cash Flows from Noncapital and Related Financing Activities - Transfers	500,000
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(218,043)
Collection of special assessments	94,437
Capital and lateral charges	<u>897,289</u>
Net cash provided by capital and related financing activities	773,683
Cash Flows from Investing Activities	
Interest received on investments	1,764,506
Proceeds from sale of investment securities	<u>2,248,842</u>
Net cash provided by investing activities	<u>4,013,348</u>
Net Increase in Cash and Cash Equivalents	6,151,144
Cash and Cash Equivalents - Beginning of year	<u>29,517,965</u>
Cash and Cash Equivalents - End of year	<u>\$ 35,669,109</u>
Statement of Net Assets Classification of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 14,546,781
Restricted assets - Cash and cash equivalents	<u>21,122,328</u>
Total cash and cash equivalents	<u>\$ 35,669,109</u>

Charter Township of Orion

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2004

	Enterprise - Water and Sewer
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,048,666)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	1,570,776
Changes in assets and liabilities:	
Receivables	175,582
Due to other funds	172,893
Accounts payable	53,680
Accrued and other liabilities	8,590
Due from other funds	(68,742)
Net cash provided by operating activities	<u><u>\$ 864,113</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2004, the Water and Sewer Fund received \$605,000 of lines donated by developers.

Charter Township of Orion

Fiduciary Funds Statement of Assets and Liabilities - Agency Funds December 31, 2004

Assets - Cash	\$ 6,393,796
Liabilities	
Due to other governmental units	\$ 4,592,981
Deposits and building bonds	1,744,791
Other liabilities	<u>56,024</u>
 Total liabilities	 \$ 6,393,796

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Orion (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Orion:

Reporting Entity

The Charter Township of Orion is governed by an elected seven-member Board of Trustees. The accompanying financial statements present the Township; there are no component units that should be included in the Township's financial statements.

Jointly Governed Organizations

The Township is a member of the North Oakland Transportation Authority, which provides transportation services to the residents of Orion Township, Oakland Township, and Oxford Township. The participating communities provide annual funding for its operations. During the current year, the Township contributed approximately \$19,400 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the North Oakland Transportation Authority can be obtained from the administrative offices at 1370 South Lapeer Road, Oxford, MI 48371.

The Township is also a member of the Paint Creek Trailways Commission, which was organized in 1981 for the purposes of owning, developing, maintaining, and otherwise operating certain nonmotorized public trails within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township (8 percent), City of Rochester (11 percent), City of Rochester Hills (37 percent), and Oakland Township (44 percent), provide annual funding for its operations. During the current year, the Township contributed approximately \$61,500 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The Township does have an equity interest in the joint venture. Complete financial statements for the Paint Creek Trailways Commission can be obtained from the administrative offices at 4393 Collins Road, Rochester, MI 48306.

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township is also a member of the Polly Ann Trailway Management Council, which was organized in 1997 for the purposes of owning, developing, maintaining, and otherwise operating nonmotorized public trails within the property contained within the boundaries of the Grand Trunk Western Railroad Company's railroad corridor. The Grand Trunk Western Railroad Company's railroad corridor is within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township, Oxford Township, Addison Township, and Villages of Oxford and Leonard provide annual funding for its operations. During the current year, the Township contributed approximately \$30,000 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Polly Ann Trailway Management Council can be obtained from the administrative offices at 23 E. Elmwood, Leonard, MI 48367.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Protection Fund - This fund accounts for all revenue and expenditures for the Township's fire operations, including millage collection. The Township fire department also provides fire fighting services to the communities of Lake Angelus and Oakland Township on a contractual basis.

Police Protection Fund - This fund accounts for the Township's police protection contracted with Oakland County. This protection is funded through a special millage.

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following proprietary fund:

Enterprise Fund (Water and Sewer Fund) - The Water and Sewer Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Additionally, the Township reports the following fund types:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales of water and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township's 2003 tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended December 31, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Township totaled \$1.53 billion (a portion of which is abated and a portion of which is captured by the Village of Lake Orion's DDA), on which taxes levied consisted of .9474 mills for operating purposes, 1.9303 mills for police services, .9863 mills for fire service, and .2422 for safety path. This resulted in \$1.47 million for operating, \$2.82 million for police services, \$1.53 million for fire service, and approximately \$374,000 for safety path. These amounts are recognized in the respective General, Special Revenue, and Capital Projects Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - According to the Township's ordinance, certain investments are restricted for future major repairs, replacements, or improvements to the water and sewer system. These amounts have been classified as restricted assets and fund balance has been restricted.

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, drains, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The Township has not reported its safety path infrastructure assets acquired through December 31, 2002. In accordance with Governmental Accounting Standards Board Statement No. 34, the Township is not yet required under the four-year transition period to reflect these assets. The Township anticipates recording these assets in 2005. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Road usage rights	20 years
Water system	40 years
Sewer system	40 years
Drains	40 years
Buildings and improvements	40 years
Machinery, furniture, and equipment	5 years
Office equipment	5 years
Vehicles	5 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative data is not included in the Township's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall - January 1, 2004	\$ (842,935)
Current year building permit revenue	866,158
Related expenses:	
Direct costs	(767,474)
Estimated indirect costs	<u>(139,264)</u>
Net current year activity	<u>(40,580)</u>
Cumulative shortfall - December 31, 2004	<u>\$ (883,515)</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated 20 banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investments in all of the allowable vehicles mentioned above.

The Charter Township of Orion's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 9,527,247	\$ 14,546,781	\$ 6,393,796	\$ 30,467,824
Investments	7,196,735	12,798,207	-	19,994,942
Restricted assets	-	21,122,328	-	21,122,328
Total	<u>\$ 16,723,982</u>	<u>\$ 48,467,316</u>	<u>\$ 6,393,796</u>	<u>\$ 71,585,094</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 45,489,107
Investments in securities, mutual funds, and similar vehicles	26,094,815
Petty cash or cash on hand	<u>1,172</u>
Total	<u>\$ 71,585,094</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 3 - Deposits and Investments (Continued)

Deposits

The bank balance of the Township's deposits is approximately \$46,060,000, of which approximately \$2,000,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

GAAP requires that investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Township or its agent in the Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township's investment balances consisted of the following:

	Reported Amount (Fair Value)
Investments not subject to categorization - Bank investment pool funds	\$ 26,094,815

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Fire Protection Fund	Police Protection Fund	Nonmajor and Agency Funds	Total	Enterprise - Water and Sewer
Receivables:						
Taxes	\$ 1,244,939	\$ 1,131,494	\$ 2,098,228	\$ 271,460	\$ 4,746,121	\$ -
Accounts	-	-	-	-	-	-
State revenue sharing	398,297	-	-	-	398,297	-
Intergovernmental	429,183	-	-	-	429,183	-
Water and sewer billings	-	-	-	-	-	1,365,018
Special assessments	-	-	-	-	-	603,162
Interest and other	62,035	-	268	105,515	167,818	2,998,711
Allowance for doubtful accounts	(33,033)	(28,355)	(52,582)	-	(113,970)	-
Net receivables	<u>\$ 2,101,421</u>	<u>\$ 1,103,139</u>	<u>\$ 2,045,914</u>	<u>\$ 376,975</u>	<u>\$ 5,627,449</u>	<u>\$ 4,966,891</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The deferred revenue in the governmental activities represents property taxes levied on December 1, 2004, but recognized as revenue in the year ending December 31, 2005, when the proceeds of the levy are budgeted and available for financing operations. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Property taxes	\$ 181,196	\$ 6,777,661

Business-type funds do not defer revenue that is unavailable and only record revenue that is earned. At the end of the current fiscal year, the business-type fund had deferred revenue recorded that was unearned. This unearned revenue represents accrued interest income that will only be due to the Township if receivable is not paid off early. At the end of the current fiscal year, the deferred revenue recorded on the business-type balance sheet is as follows:

	Unavailable	Unearned
Interest	\$ -	\$ 406,349

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,585,764	\$ 16,440	\$ -	\$ 1,602,204
Land improvements	2,099,706	299,865	-	2,399,571
Subtotal	3,685,470	316,305	-	4,001,775
Capital assets being depreciated:				
Land improvements	1,771,994	-	-	1,771,994
Buildings and improvements	4,685,292	361,349	-	5,046,641
Road usage rights	3,751,253	108,071	-	3,859,324
Drains	231,267	24,726	-	255,993
Vehicles	3,771,532	-	412,724	3,358,808
Furniture and equipment	1,506,172	64,616	36,948	1,533,840
Subtotal	15,717,510	558,762	449,672	15,826,600
Accumulated depreciation:				
Land improvements	608,060	120,543	-	728,603
Buildings and improvements	1,404,517	121,649	-	1,526,166
Road usage rights	1,707,005	190,264	-	1,897,269
Drains	6,955	6,090	-	13,045
Vehicles	2,256,354	346,539	412,724	2,190,169
Furniture and equipment	1,325,581	68,882	36,583	1,357,880
Subtotal	7,308,472	853,967	449,307	7,713,132
Net capital assets being depreciated	8,409,038	(295,205)	365	8,113,468
Net capital assets	<u>\$ 12,094,508</u>	<u>\$ 21,100</u>	<u>\$ 365</u>	<u>\$ 12,115,243</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 5 - Capital Assets (Continued)

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Business-type Activities				
Capital assets being depreciated:				
Land improvements	\$ 228,112	\$ -	\$ -	\$ 228,112
Water system	29,355,534	427,000	-	29,782,534
Sewer system	28,500,238	369,038	-	28,869,276
Buildings	518,858	-	-	518,858
Machinery and equipment	676,027	3,654	4,778	674,903
Office equipment	62,715	-	-	62,715
Vehicles	483,728	24,153	-	507,881
Subtotal	59,825,212	823,845	4,778	60,644,279
Accumulated depreciation:				
Land improvements	89,944	11,354	-	101,298
Water system	8,191,425	723,900	-	8,915,325
Sewer system	15,396,336	724,278	-	16,120,614
Buildings	518,857	-	-	518,857
Machinery and equipment	483,047	41,996	3,976	521,067
Office equipment	62,715	-	-	62,715
Vehicles	287,950	69,248	-	357,198
Subtotal	25,030,274	1,570,776	3,976	26,597,074
Net capital assets	\$ 34,794,938	\$ (746,931)	\$ 802	\$ 34,047,205

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 110,313
Public safety	379,930
Public works	196,355
Health and welfare	18,218
Recreation and culture	149,151
Total governmental activities	<u>\$ 853,967</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

General Fund	Safety Path Fund	\$ 444,356
	Host Fee Fund	775,365
	Water and Sewer Fund	<u>874,909</u>
Total General Fund		2,094,630
Fire Protection Fund	General Fund	3,932,956
Police Protection Fund	General Fund	2,856,040
Other nonmajor governmental funds:		
Keatington Mill Lake Lights Fund	General Fund	2,354
Elkhorn Lake Fund	General Fund	9,254
Square Lake Fund	General Fund	15,173
Square Lake Algae Fund	General Fund	8,105
Lake Orion Canal Fund	General Fund	6,400
Compensated Absence Fund	General Fund	50,000
Capital Improvement Fund	General Fund	4,474,780
Fire Capital Improvement Fund	Fire Protection Fund	2,779,744
Friendship Park Fund	General Fund	<u>4,485</u>
Total other nonmajor governmental funds		<u>7,350,295</u>
Total interfund receivables		<u><u>\$ 16,233,921</u></u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. In addition, several funds do not have separate bank accounts and, therefore, the General Fund holds their respective cash and investments.

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 500,000
	Other governmental funds	500,000
Fire Protection Fund	Fire Capital Improvement Fund	600,000
Other governmental funds	General Fund	<u>525,725</u>
Total		<u>\$ 2,125,725</u>

The transfer from the General Fund to the Water and Sewer Fund represents transfers to help defray the cost for the Hi Hill project. The transfer from the General Fund to the other governmental fund (Capital Improvement Fund) represents the use of unrestricted resources to finance future construction projects. The transfer from the Fire Protection Fund to the Fire Capital Improvement Fund represents the movement of resources to be used for fire capital improvements. The transfer from the other governmental fund (Host Fee Fund) to the General Fund represents a transfer of unrestricted resources.

Note 7 - Noncurrent Liabilities

Noncurrent liabilities consist of the following:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities				
Property tax tribunal cases	\$ 159,000	\$ -	\$ 159,000	\$ -
Self-insurance reserve	4,050	22,682	26,732	-
Accumulated employee compensated absences	<u>122,903</u>	<u>(4,440)</u>	<u>118,463</u>	<u>53,343</u>
Total governmental activities	<u>\$ 285,953</u>	<u>\$ 18,242</u>	<u>\$ 304,195</u>	<u>\$ 53,343</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits provided to employees, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Township.

The Township estimates the liability for general claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are reflected in the government activities column on the statement of net assets. Changes in the estimated liability for the past two years were as follows:

	2004	2003
Estimated liability - Beginning of year	\$ 4,050	\$ 4,050
Estimated claims incurred, including changes in estimates	31,431	11,212
Claim payments	<u>(8,749)</u>	<u>(11,212)</u>
Estimated liability - End of year	<u>\$ 26,732</u>	<u>\$ 4,050</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 9 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds that management has designated:

	General Fund	Fire Protection Fund	Police Protection Fund	Fire Capital Improvement Fund	Capital Improvement Fund	Friendship Park Fund	Safety Path Improvement Fund
Designated for:							
Subsequent year's expenditures	\$ 185,383	\$ 15,843	\$ -	\$ 1,101,211	-	\$ 10,000	\$ 91,833
Future road widening	-	-	-	-	\$ 3,200,000	-	309,917
Repair and maintenance	-	-	-	-	-	-	-
Retention of officers	-	-	1,179,115	-	-	-	-
Total designated	<u>\$ 185,383</u>	<u>\$ 15,843</u>	<u>\$ 1,179,115</u>	<u>\$ 1,101,211</u>	<u>\$ 3,200,000</u>	<u>\$ 10,000</u>	<u>\$ 401,750</u>

Note 10 - Defined Contribution Pension Plan

The Township provides pension benefits to substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months from the time of employment. As established by the Township Board of Trustees, the Township contributes 10 percent of most employees' gross earnings (with varying rates for DPW employees).

The Township's contributions for each employee are fully vested after 20 months of continuous service. Employees may contribute to the plan on a voluntary basis. In accordance with these requirements, the Township contributed \$232,868 during the current year.

Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The plan allows the Township to contribute, on behalf of its eligible employees, portions of its employees' salary and/or compensated absences to meet its employees' postemployment health care needs. For the fiscal year ended December 31, 2004, the Township made payments for postemployment health benefit premiums of \$26,451.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

Charter Township of Orion

Notes to Financial Statements December 31, 2004

Note 11 - Other Postemployment Benefits (Continued)

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Note 12 - Personal Property Tax Multiplier

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to the present as a result of local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2003, the tax tables were again upheld on appeal. The amounts paid to the Township in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds of approximately \$159,000. Appeals are still being undertaken by taxing authorities and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets.

Required Supplemental Information

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,465,445	\$ 1,465,445	\$ 1,446,317	\$ (19,128)
Licenses and permits	726,150	726,150	851,191	125,041
Federal grants	78,111	182,025	49,975	(132,050)
State sources	2,454,254	2,454,254	2,206,306	(247,948)
Interest	110,250	110,250	145,550	35,300
Other	463,255	463,255	503,379	40,124
Transfers in	173,286	755,986	525,725	(230,261)
Total revenue	5,470,751	6,157,365	5,728,443	(428,922)
Expenditures				
General government:				
Township Board	44,850	44,850	33,060	11,790
Supervisor	255,150	287,650	272,715	14,935
Elections	103,950	106,450	102,957	3,493
Assessing	353,400	436,400	424,851	11,549
Attorney fees	160,000	252,300	252,231	69
Finance	30,000	30,000	25,369	4,631
Clerk	367,900	407,850	401,136	6,714
Board of Review	4,000	4,000	1,253	2,747
Treasurer	252,650	306,650	301,421	5,229
Building and grounds	312,770	343,270	302,144	41,126
Drainage projects	9,000	13,000	30,322	(17,322)
Other general services	1,126,344	683,794	407,785	276,009
Total general government	3,020,014	2,916,214	2,555,244	360,970
Public safety:				
Zoning Board of Appeals	12,050	12,050	9,140	2,910
Building inspection	774,650	877,050	763,919	113,131
Planning Commission	30,130	30,130	14,925	15,205
Civil defense - Tornado sirens	150	450	353	97
Total public safety	816,980	919,680	788,337	131,343
Public works - Highways and streets	170,550	234,450	182,670	51,780

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Health and welfare:				
Community development block grant	\$ 42,111	\$ 146,025	\$ 45,294	\$ 100,731
Community services	60,800	64,100	60,064	4,036
Senior center	143,805	160,305	147,173	13,132
Total health and welfare	246,716	370,430	252,531	117,899
Recreation and cultural - Parks and recreation	666,566	714,556	682,295	32,261
Capital outlay	56,300	57,400	35,299	22,101
Transfers to other funds	510,000	1,018,800	1,000,000	18,800
Total expenditures	5,487,126	6,231,530	5,496,376	735,154
Excess of Revenue Over (Under) Expenditures	(16,375)	(74,165)	232,067	306,232
Fund Balance - January 1, 2004	3,771,236	3,771,236	3,771,236	-
Fund Balance - December 31, 2004	<u><u>\$ 3,754,861</u></u>	<u><u>\$ 3,697,071</u></u>	<u><u>\$ 4,003,303</u></u>	<u><u>\$ 306,232</u></u>

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2004

Fire Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,525,616	\$ 1,525,616	\$ 1,526,265	\$ 649
State sources	1,500	1,500	1,631	131
Interest	15,000	15,000	42,066	27,066
Other	<u>3,000</u>	<u>3,000</u>	<u>90,728</u>	<u>87,728</u>
Total revenue	1,545,116	1,545,116	1,660,690	115,574
Expenditures				
Salaries and employee benefits	886,730	887,230	861,326	25,904
Supplies	29,150	22,500	17,451	5,049
Utilities	37,500	39,600	28,575	11,025
Repairs and maintenance	72,000	100,450	90,408	10,042
Insurance	93,250	100,350	96,255	4,095
Capital outlay	25,000	10,500	3,377	7,123
Other public safety expenditures	78,033	61,033	44,680	16,353
Transfers to other funds	<u>450,000</u>	<u>600,000</u>	<u>600,000</u>	<u>-</u>
Total expenditures	<u>1,671,663</u>	<u>1,821,663</u>	<u>1,742,072</u>	<u>79,591</u>
Excess of Expenditures Over Revenue	(126,547)	(276,547)	(81,382)	195,165
Fund Balance - January 1, 2004	<u>657,512</u>	<u>657,512</u>	<u>657,512</u>	<u>-</u>
Fund Balance - December 31, 2004	<u>\$ 530,965</u>	<u>\$ 380,965</u>	<u>\$ 576,130</u>	<u>\$ 195,165</u>

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2004

Police Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 2,827,354	\$ 2,827,354	\$ 2,824,998	\$ (2,356)
Licenses and permits	6,000	6,000	14,934	8,934
State sources	-	-	3,252	3,252
Interest	55,200	55,200	73,286	18,086
Other	<u>223,262</u>	<u>223,262</u>	<u>269,569</u>	<u>46,307</u>
Total revenue	3,111,816	3,111,816	3,186,039	74,223
Expenditures				
Salaries and employee benefits	3,080,418	3,035,768	2,990,319	45,449
Supplies	7,000	7,000	6,050	950
Utilities	62,960	94,960	92,902	2,058
Repairs and maintenance	4,000	4,000	930	3,070
Capital outlay	20,000	20,000	3,504	16,496
Other public safety expenditures	<u>11,500</u>	<u>24,150</u>	<u>22,495</u>	<u>1,655</u>
Total expenditures	<u>3,185,878</u>	<u>3,185,878</u>	<u>3,116,200</u>	<u>69,678</u>
Excess of Revenue Over (Under) Expenditures	(74,062)	(74,062)	69,839	143,901
Fund Balance - January 1, 2004	<u>1,395,421</u>	<u>1,395,421</u>	<u>1,395,421</u>	-
Fund Balance - December 31, 2004	<u><u>\$ 1,321,359</u></u>	<u><u>\$ 1,321,359</u></u>	<u><u>\$ 1,465,260</u></u>	<u><u>\$ 143,901</u></u>

Charter Township of Orion

Note to Required Supplemental Information December 31, 2004

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, with the exception of operating transfers, which have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end. The annual budget is prepared by the Township Supervisor; a public hearing is held by September 30 and adopted by the Township Board by October 31 of the preceding year; and subsequent amendments are approved by the Township Board. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have any significant expenditure budget variances.

Other Supplemental Information

Charter Township of Orion

	Special Revenue Funds					
	Keatington Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Square Lake Algae Fund	Lake Orion Canal Fund	Compensated Absence Fund
Assets						
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property taxes receivable	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-
Due from other funds	2,354	9,253	15,173	8,105	6,400	50,000
Total assets	<u>\$ 2,354</u>	<u>\$ 9,253</u>	<u>\$ 15,173</u>	<u>\$ 8,105</u>	<u>\$ 6,400</u>	<u>\$ 50,000</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 158	\$ -	\$ 232	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-
Deferred revenue	1,897	9,180	14,019	8,105	-	-
Total liabilities	2,055	9,180	14,251	8,105	-	-
Fund Balances						
Reserved for prepaid expenses	-	-	-	-	-	-
Unreserved:						
Designated for subsequent year's expenditures	-	-	-	-	-	-
Designated for repairs and maintenance	-	-	-	-	-	-
Designated for future road widening	-	-	-	-	-	-
Undesignated	299	73	922	-	6,400	50,000
Total fund balances	299	73	922	-	6,400	50,000
Total liabilities and fund balances	<u>\$ 2,354</u>	<u>\$ 9,253</u>	<u>\$ 15,173</u>	<u>\$ 8,105</u>	<u>\$ 6,400</u>	<u>\$ 50,000</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004**

Capital Projects Funds					
Host Fee Fund	Capital Improvement Fund	Friendship Park Fund	Fire Capital Improvement Fund	Safety Path Improvement Fund	Total Nonmajor Governmental Funds
\$ 2,132,521	\$ -	\$ -	\$ -	\$ 1,503,594	\$ 3,636,115
-	-	-	-	271,459	271,459
30,319	-	50,197	-	25,000	105,516
-	52,000	-	-	-	52,000
-	4,474,780	4,485	2,779,744	-	7,350,294
<u>\$ 2,162,840</u>	<u>\$ 4,526,780</u>	<u>\$ 54,682</u>	<u>\$ 2,779,744</u>	<u>\$ 1,800,053</u>	<u>\$ 11,415,384</u>
\$ -	\$ 5,850	\$ 2,698	\$ 94,761	\$ 23,867	\$ 127,566
775,365	-	-	-	444,356	1,219,721
-	-	-	-	396,923	430,124
775,365	5,850	2,698	94,761	865,146	1,777,411
-	52,000	-	-	-	52,000
-	-	10,000	1,101,211	91,833	1,203,044
-	-	-	-	309,917	309,917
-	3,200,000	-	-	-	3,200,000
1,387,475	1,268,930	41,984	1,583,772	533,157	4,873,012
1,387,475	4,520,930	51,984	2,684,983	934,907	9,637,973
<u>\$ 2,162,840</u>	<u>\$ 4,526,780</u>	<u>\$ 54,682</u>	<u>\$ 2,779,744</u>	<u>\$ 1,800,053</u>	<u>\$ 11,415,384</u>

Charter Township of Orion

	Special Revenue Funds					
	Keatington					
	Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Square Lake Algae Fund	Lake Orion Canal Fund	Compensated Absence Fund
Revenue						
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Eagle Valley fees	-	-	-	-	-	-
State sources	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Special assessments	1,345	9,000	5,001	-	5,550	-
Other	-	-	-	-	-	-
Total revenue	1,345	9,000	5,001	-	5,550	-
Expenditures						
Utilities	1,858	-	16,641	-	-	-
Repairs and maintenance	-	9,000	-	-	800	-
Capital outlay	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total expenditures	1,858	9,000	16,641	-	800	-
Excess of Revenue Over (Under) Expenditures	(513)	-	(11,640)	-	4,750	-
Other Financing Sources (Uses)						
Operating transfer in	-	-	-	-	-	-
Operating transfer out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Net Change in Fund Balances	(513)	-	(11,640)	-	4,750	-
Fund Balances - January 1, 2004	812	73	12,562	-	1,650	50,000
Fund Balances - December 31, 2004	<u>\$ 299</u>	<u>\$ 73</u>	<u>\$ 922</u>	<u>\$ -</u>	<u>\$ 6,400</u>	<u>\$ 50,000</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2004

Capital Projects Funds					
Host Fee Fund	Capital Improvement Fund	Friendship Park Fund	Fire Capital Improvement Fund	Safety Path Improvement Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 374,273	\$ 374,273
434,611	-	-	-	-	434,611
-	-	70,947	-	-	70,947
20,979	-	-	56,181	14,334	91,494
-	-	-	-	-	20,896
-	-	535	-	151,633	152,168
455,590	-	71,482	56,181	540,240	1,144,389
-	-	-	-	-	18,499
-	-	-	23,759	-	33,559
-	193,417	121,399	346,398	283,138	944,352
2,517	-	-	-	141,695	144,212
2,517	193,417	121,399	370,157	424,833	1,140,622
453,073	(193,417)	(49,917)	(313,976)	115,407	3,767
-	500,000	-	600,000	-	1,100,000
(500,000)	-	-	-	(25,725)	(525,725)
(500,000)	500,000	-	600,000	(25,725)	574,275
(46,927)	306,583	(49,917)	286,024	89,682	578,042
1,434,402	4,214,347	101,901	2,398,959	845,225	9,059,931
\$ 1,387,475	\$ 4,520,930	\$ 51,984	\$ 2,684,983	\$ 934,907	\$ 9,637,973

Charter Township of Orion

Other Supplemental Information Fiduciary Funds - Combining Statement of Net Assets Agency Funds December 31, 2004

	Agency Funds			Total
	Trust and Agency Fund	Tax Collection Fund	Indianwood Lake Board Fund	
Assets - Cash	<u>\$ 1,753,939</u>	<u>\$ 4,622,888</u>	<u>\$ 16,969</u>	<u>\$ 6,393,796</u>
Liabilities				
Due to other governmental units	\$ -	\$ 4,506,012	\$ 86,969	\$ 4,592,981
Deposits and building bonds	1,744,791	-	-	1,744,791
Due to other funds	-	70,000	(70,000)	-
Other liabilities	<u>9,148</u>	<u>46,876</u>	<u>-</u>	<u>56,024</u>
Total liabilities	<u>\$ 1,753,939</u>	<u>\$ 4,622,888</u>	<u>\$ 16,969</u>	<u>\$ 6,393,796</u>

March 31, 2005

Board of Trustees
Charter Township of Orion
2525 Joslyn Road
Lake Orion, MI 48360

Dear Board Members:

We recently completed the audit of the financial statements of the Charter Township of Orion for the year ended December 31, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration.

FINANCIAL RESULTS

For the year ended December 31, 2004, the Township's General Fund fund balance increased by approximately \$232,000. Overall, revenues decreased approximately \$399,000 from the prior year. However, the Township was able to decrease expenditures from 2003 to 2004 by approximately \$54,000, resulting in the net increase to fund balance. The Township's decreased revenue was mainly due to a 7% decrease in state shared revenue, a decrease in CDBG grant monies due to less grant reimbursement in the current year, and a decrease in funds received from Oakland County related to reimbursements of drainage projects at the Township during 2002 and 2003. The Township was able to maintain expenditures at a level consistent with prior year by good expenditure control, allocation of administrative costs, maintaining capital outlay expenditures consistent with 2003 levels, and decreasing payments in 2004 to the post employment health benefits fund. These cost cutting measures served to keep expenditures fairly consistent with the prior year.

We commend the Township Board, as well as department heads and staff, for their success with budgeting and financial management during these times of material reductions in funding from the State of Michigan. As discussed later in this communication in the State Shared Revenue and Property Assessment Cap comments, both the State's revenue shortfall and the limited growth in existing properties due to Proposal A will continue to have a negative impact on General Fund revenues. To determine the long-term implications, the Township should consider developing a multi-year operational and capital plan for its operating funds.

STATE SHARED REVENUE

State shared revenue accounts for approximately 42% of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contained a provision to not pay counties statutory revenue sharing. Instead, beginning in 2005, the counties will change their property tax levy date for their operating millage from December to July. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. In February of 2005, the Governor's Executive order indicated that no further cuts to revenue sharing would take place for the State's fiscal year 2004/2005.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$773 million shortfall exists for the State's 2005/2006 fiscal year budget. Also, during February of 2005, the Governor announced that revenue sharing is budgeted at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. However, as a result of the continuing uncertainty with the State's budget situation and other potential developments within the State's tax structure change, we continue to urge the Township to be very conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable.

The following table details actual state shared revenue for the Township since 2001 in comparison to state shared revenue if the revenue payments would have increased at the rate of inflation. In addition, the table details the cumulative forgone revenue the Township experienced by not receiving state shared revenue payments that kept up with the annual increases in inflation since 2001.

STATE SHARED REVENUE (Continued)

Calendar Year Ending December 31	Actual Revenue Sharing	Revenue Sharing if City Received Inflationary Increases	Cumulative Lost Revenue Sharing Payments
2001	\$2,856,037	\$2,856,037	-
2002	\$2,581,351	\$2,947,430	\$366,079
2003	\$2,388,431	\$2,991,641	\$969,289
2004	\$2,213,954	\$3,060,449	\$1,815,784
2005 – Estimate	\$2,213,954	\$3,130,839	\$2,732,669

We will continue to update the Township as developments occur.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the Township's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the Township Board, administration, and other employees throughout the Township, a retrospective review of accounting estimates, a detailed review of all journal entries, and other related procedures.

The Board should be pleased to note that the additional inquiries and testing that were performed did not reveal any material internal control issues to be addressed by the Township.

In addition, during our follow up on the Senior Center internal control recommendations from last year, we noted the Township has implemented the majority of our suggestions. We commend the Township on implementing these important internal controls in a timely manner. It was noted that the Senior Center is now using pre-numbered receipts which are tracked separately by the Treasurer's department, monies are being stored in a locked drawer at the Senior Center, deposits are being taken daily to the Treasurer's department with a copy of the receipts issued at the Senior Center accompanying and reconciling to the deposit amount, and the Senior Center receives a receipt from the Treasurer's department cash register for the amount of the daily deposit.

PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%	1994	3.0%
1999	1.6%		

The 2004 inflation factor was used for property taxes levied for the Township's calendar year 2005. Property taxes are the Township's largest source of General, Police Protection and Fire Protection Fund revenues. However, as indicated above, growth in existing property taxes is significantly limited due to Proposal A. This factor should be considered when the Township is performing long-term financial planning.

Also, as you recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth on the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the Township is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. The charter mills are 1.4100 versus the Headlee limited mills of .9401.

OTHER ACCOUNTING RECOMMENDATIONS

INVESTMENT INTEREST RECONCILIATIONS

As mentioned in the prior year, The Township has over \$71 million in cash and investments under its control. In order to decrease risk and safely optimize investment returns, the Township Treasurer has invested these funds at many different financial institutions. Given the sheer number of the outstanding investments and the related level of activity, it is important to ensure that these investments are tracked in a thorough and timely manner. We commend the new Township Treasurer for continuing the efforts in this area. It is our understanding that reporting to the accounting department has become timelier and reporting is now being done to the Township Board on investment purchases and rollovers. We further encourage the Township to reconcile actual interest earnings with expected interest earnings based on the accounting interest calculations on at least a quarterly basis. This calculation will serve as a check on the bank's calculation of interest earned. In order to accomplish this, the Township may need to work with the banks to ensure the interest accrual tables are consistent with the bank's method of interest accrual.

PERSONAL PROPERTY TAX

As noted in the financial statement disclosures for the current year, several years ago the State Tax Commission approved new personal property tax tables for utilities (which made drastic changes to the useful lives of transmission and distribution property of utilities, and resulted in a corresponding revenue loss to local governments). For tax years from 1997 to 2000, the Township, like many communities, elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made, or are in process, from local governments to the utilities. We encourage the Township to continue to monitor these developments as the Township has a potential liability for refunds of approximately \$159,000.

OTHER ITEMS

UPCOMING REPORT CHANGES

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2008.

Board Members
Charter Township of Orion

March 31, 2005

OTHER ITEMS (Continued)

FACILITIES PLANNING

As the Township continues to experience growth, there may be a need for new or expanded operating facilities. Our governmental consulting group has extensive experience in facilities needs assessments and planning. To the extent that you would like assistance in developing short-term and long-term plans, as well as an analysis of the funding options that are available, we would be happy to discuss our qualifications in this area.

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

PLANTE & MORAN, PLLC

Beth A. Bialy

Beth A. Bialy

Kathryn J. Kercorian

Kathryn J. Kercorian